



2019 INTERNAL CONTROL QUESTIONNAIRE RESULTS

FOR THE PERIOD
JANUARY 1, 2019 THROUGH DECEMBER 31, 2019

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



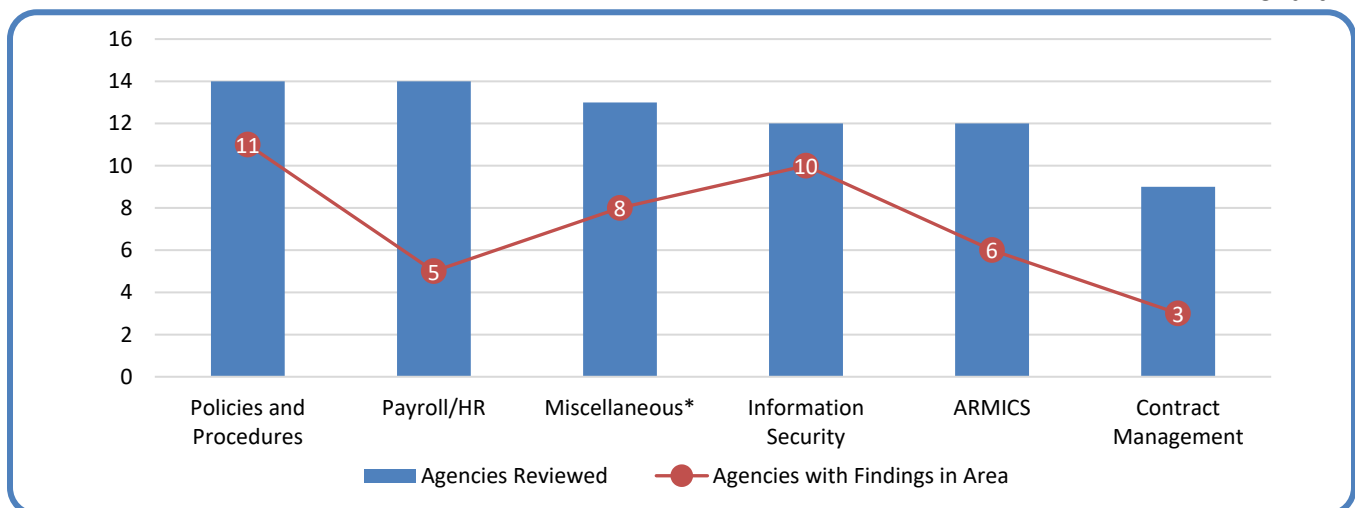
EXECUTIVE SUMMARY

The Auditor of Public Accounts has implemented a risk-based approach for auditing agencies that are not required to be audited every year. We refer to these agencies as cycled agencies. As part of this approach, we send cycled agencies a questionnaire inquiring of their internal controls over different areas of operations. We then review the agencies' responses to the questionnaire, and design and perform procedures based on the results. At the conclusion of an agency review, we provide a letter to management stating the results and highlighting any key areas of interest. In addition to the letters to management, this report summarizes the overall results of the reviews of internal controls performed during calendar year 2019 and highlights common deficiencies identified across agencies.

The scope of our review included 15 agencies. While we typically communicate the results of these reviews through a letter to management, we communicated the results of our review of the Virginia Commission for the Arts (Commission for the Arts) in a [separate report](#) due to the significant issues noted during our review. Therefore, the results of our review of the Commission for the Arts are excluded from this report. Of the remaining 14 agencies, we issued recommendations for improvements in internal controls to 13 agencies. We used a risk-based approach to determine what areas to review at each agency. Chart 1 below shows how many agencies we reviewed for each area compared to the number of agencies with findings in that area.

Frequency of Findings

Chart 1



*Miscellaneous areas consist of: financial reconciliations, capital assets/inventory, grants, debt, and other.

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INTRODUCTION

The Auditor of Public Accounts (APA), as required by the Code of Virginia, audits all Executive and Judicial branch Commonwealth agencies handling state funds. However, the Code of Virginia does not require audits of all agencies annually. Agencies audited by APA on a periodic basis are referred to as cycled agencies. We developed a risk-based approach for auditing cycled agencies. As part of this approach, we send a questionnaire regarding internal controls to these agencies. All cycled agencies will receive a questionnaire at least once every three years. We then review the responses to the questionnaire and design and perform procedures based on the results. The purpose of the internal control reviews is to evaluate if the agencies have designed and implemented adequate internal controls over significant organizational areas and activities. We do not express an opinion on the effectiveness of internal controls. At the conclusion of the review, we provide a letter to management stating the results and highlighting key areas of interest. Links to the results letters issued to each agency can be found in the [Appendix](#). The results of these reviews will be included within the risk analysis process for the upcoming year in determining which agencies we will audit. This report communicates the overall results of the reviews of internal controls performed during calendar year 2019 and highlights common deficiencies identified across agencies. The results of our review of the Virginia Commission for the Arts (Commission for the Arts) are not included in this report. We issued a [separate report](#) for the Commission for the Arts due to the significant issues noted during our review.

REVIEW PROCEDURES

During these reviews, the agencies completed an internal control questionnaire that covers significant organizational areas and activities, including payroll and human resources (HR); revenues; expenses; procurement and contract management; capital assets and leases; grants; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities. While our reviews of agencies were not limited to these areas, these are common areas included in the scope of our reviews.

APA reviewed agency responses to the questionnaire and relevant supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depended on judgment in assessing the likelihood that the controls may not prevent and/or detect events that could result in failure to achieve the control objectives. The procedures performed target risks or business functions deemed significant at each agency and involve reviewing internal policies and procedures. Based on the results of our review, we determined if we needed to perform additional procedures. These procedures included inquiry; validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process. Table 1 lists the agencies included in the scope of this year's internal control review, with the exception of the Commission for the Arts, which was communicated in a separate report.

Agencies Included in The Review
Agency Name, Total Fiscal Year 2018 Expenses
(rounded in millions)

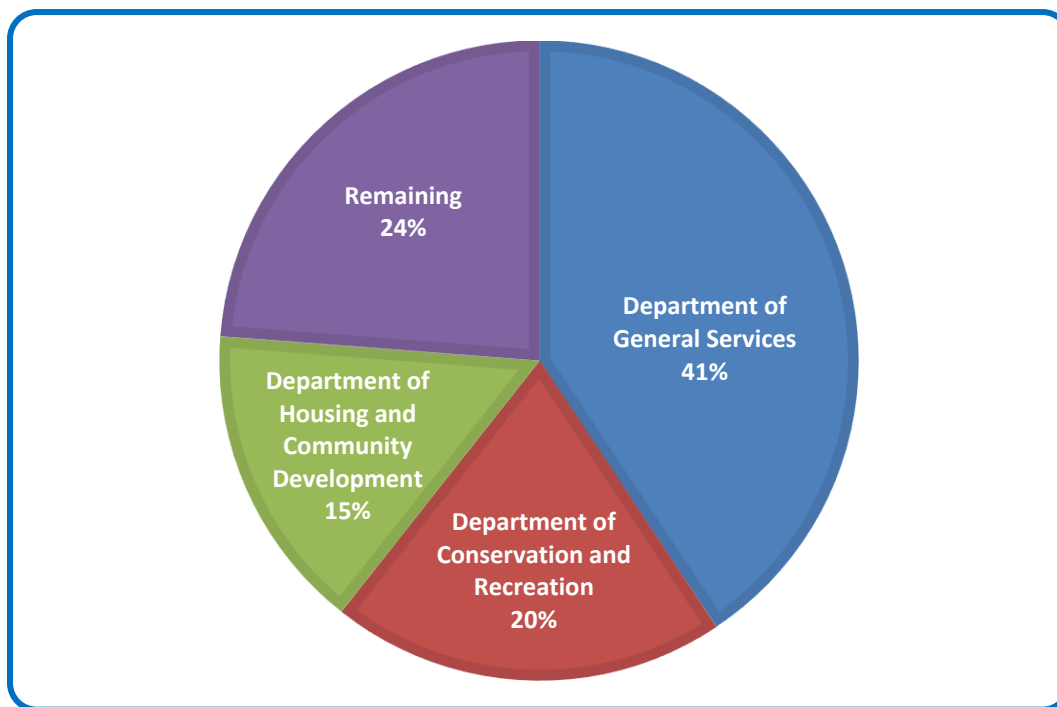
Table 1

Department of Accounts Payroll Service Bureau, \$2.2	Department of Small Business and Supplier Diversity, \$6.7
Department of Conservation and Recreation, \$130.5	GenEdge Alliance, \$5.3
Department of Forensic Science, \$ 47.5	Library of Virginia, \$36
Department of General Services, \$265.4	Marine Resources Commission, \$18.7
Department of Historic Resources, \$7.4	Southern Virginia Higher Education Center, \$6
Department of Housing and Community Development, \$101.7	Southwest Virginia Higher Education Center, \$8.2
Department of Labor and Industry, \$16.5	Virginia Health Workforce Development Authority, \$0.8

In total, these agencies spent approximately \$653 million in fiscal year 2018. As shown in Chart 2, the Departments of General Services, Conservation and Recreation, and Housing and Community Development made up approximately 76 percent of the 14 agencies' total fiscal year 2018 expenses.

Fiscal Year 2018 Total Expenses

Chart 2

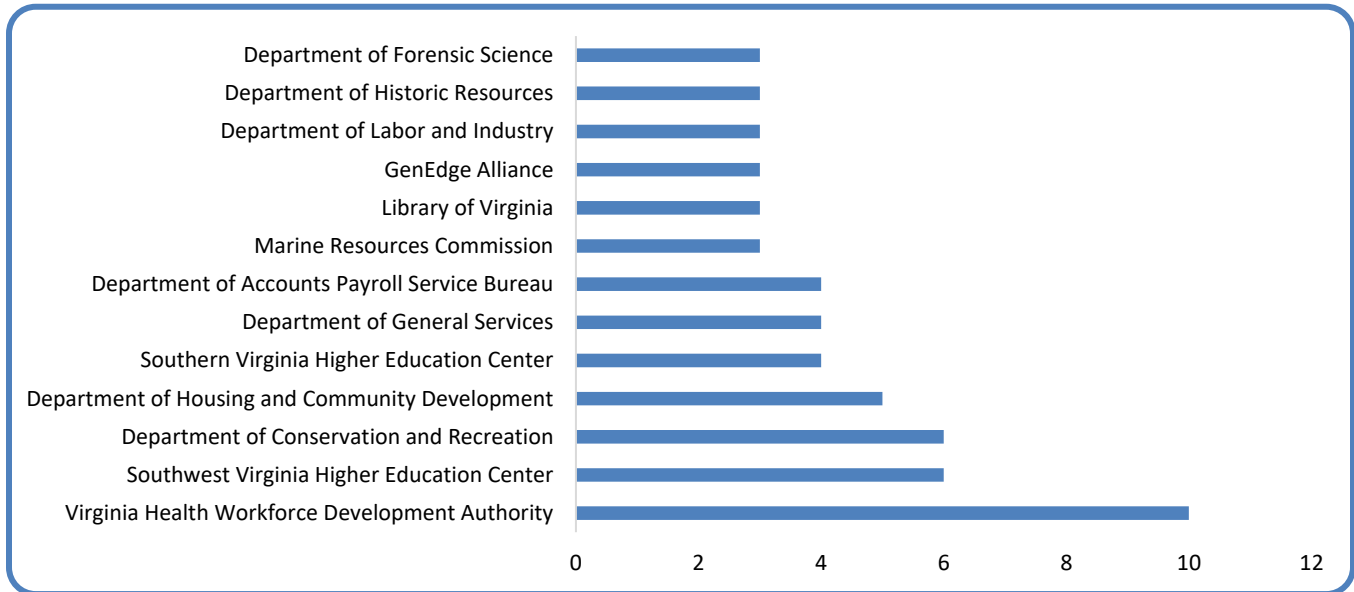


REVIEW RESULTS

Our reviews identified 57 recommendations for 13 out of 14 agencies. We did not issue any findings to the Department of Small Business and Supplier Diversity. Chart 3 shows the total findings issued for each agency.

Findings by Agency

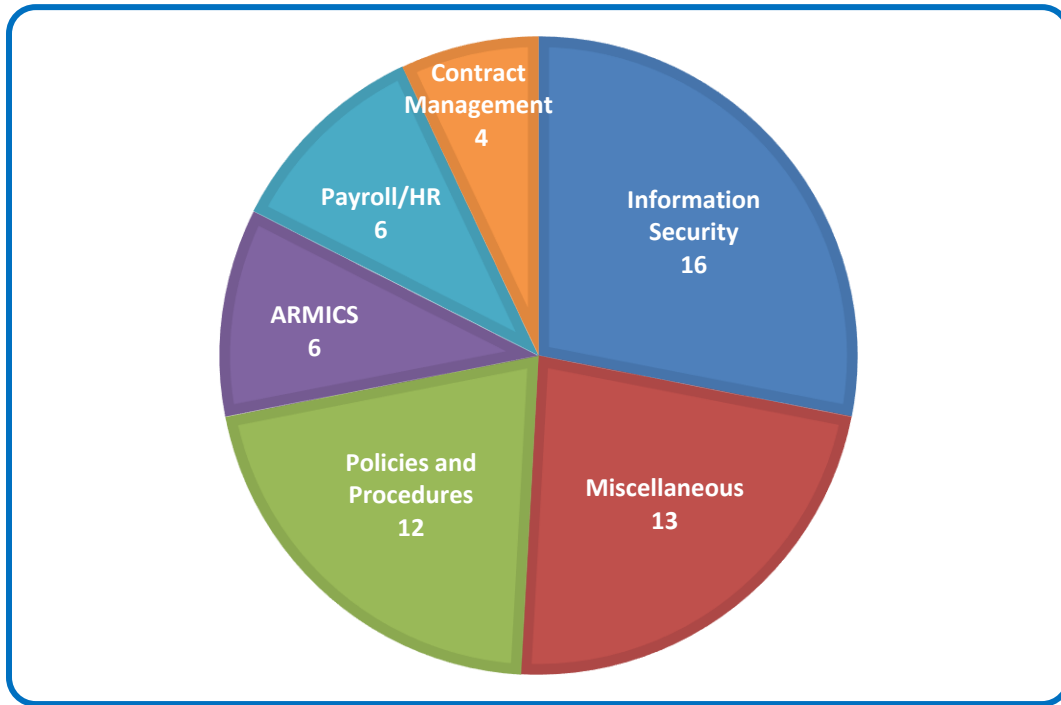
Chart 3



Information Security and Policies and Procedures are the areas with the most recommendations for improvement. Chart 4 depicts the total findings for all agencies grouped by type. Each area is described in further detail below.

Types of Findings

Chart 4



As noted previously, we did not review every business cycle at every agency, but rather used a risk-based approach to determine which areas to review. Table 2 below notes which areas we reviewed at each agency and whether there was a finding related to that particular area. The ✓ symbol indicates that the area was reviewed and no findings were issued. An X indicates that the area was reviewed and findings were included in the results letter. If a number accompanies the X, this signifies the number of findings issued at a particular agency for that area, no number indicates only one finding was issued for the area. Blank fields indicate that the area was not reviewed. For details on the findings, see links to the individual results letters in the [Appendix](#).

Areas Reviewed by Agency

Table 2

Agencies	Policies and Procedures	Information Security	ARMICS	Contract Management	Payroll/HR	Miscellaneous
Department of Accounts Payroll Service Bureau	X ²	✓	✓		X ²	
Department of Conservation and Recreation	X	X ²	X	✓	✓	X ²
Department of Forensic Science*	X	X			X	✓
Department of General Services	X		X	✓	✓	X ²
Department of Historic Resources	X	X	✓	✓	✓	X
Department of Housing and Community Development	X	X	X		X	X
Department of Labor and Industry	X	X ²	✓	✓	✓	✓
Department of Small Business and Supplier Diversity	✓	✓	✓		✓	✓
GenEdge Alliance	✓	X	X	X	✓	✓
Library of Virginia	✓	X ³	✓	✓	✓	✓
Marine Resources Commission	X		✓		X	X
Southern Virginia Higher Education Center	X	X	X	✓	✓	X
Southwest Virginia Higher Education Center	X	X	X	X	✓	X ²
Virginia Health Workforce Development Authority	X	X ³		X ²	X	X ³

* The Department of Accounts performed a Quality Assurance Review over Forensic Science and issued a report with findings and recommendations in August of 2019. At the time of our review this report had just been issued and management had not had time to implement corrective actions for any recommendations received during that review. Therefore, we excluded from our scope of procedures areas that were covered in the Quality Assurance Review.

Policies and Procedures

Policies and procedures are a critical component to good internal controls; therefore, we reviewed policies and procedures for all agencies. We considered the design of policies and procedures and whether the procedures facilitated consistency and were sufficiently detailed. Establishing and implementing policies and procedures will ensure the control activities are consistently and effectively carried out. We issued findings for insufficient policies and procedures to 11 out of 14 agencies.

Information Security

We considered controls related to users, such as establishing and maintaining access to critical systems and the adequacy and frequency of security awareness training, as well as controls related to the overall security of sensitive systems. The findings in these areas related to security administration, continuity and contingency planning, information technology audits, and compliance with Virginia Information Technologies Agency standards. We issued findings related to information security to ten out of 12 agencies for which this area was reviewed.

ARMICS

Risk management is a critical component to sound internal controls, as outlined in the statewide Agency Risk Management and Internal Control Standards (ARMICS). As ARMICS provides a basis for management to establish internal controls and assess that they are functioning, failure to complete the documentation and perform assessment tests increases the risk that internal controls may not exist or function adequately. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. We issued findings related to ARMICS at six out of 12 agencies reviewed.

Contract Management

Many agencies contract out various services or tasks to a third party. We reviewed the agreements with third parties to ensure the agreements were sufficiently detailed to indicate which party is responsible for specific internal controls. In addition, we reviewed controls in place to monitor the third party to ensure services were being provided as indicated in the agreement with the third party. We issued findings related to contract management to three out of nine agencies reviewed.

Payroll/Human Resources

Payroll expenses are a significant portion of the budget for many of these agencies. We reviewed the controls in place over payroll and human resources activities such as proper segregation of duties, review of payroll transactions, review and reconciliation of retirement data, and leave documentation. We issued findings related to payroll and human resources at five out of 14 agencies reviewed.

Miscellaneous

Other miscellaneous control areas were assessed based on the responses to the internal control questionnaire and the nature of operations at each agency. Issues in the miscellaneous category were unique to each agency and included various agency-level and transaction-level controls. We issued findings related to miscellaneous categories to eight out of the 13 agencies we reviewed. The findings are summarized in each agency's review results letter, and links to these letters are included in the [Appendix](#).



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 3, 2020

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We periodically review the internal controls of cycled agencies and submit our report entitled **2019 Internal Control Questionnaire Results** for your review.

This report provides a summary perspective of overall internal control weaknesses we identified during our Internal Control Questionnaire Reviews performed primarily during the period January 1, 2019, through December 31, 2019. We intend to continue to review cycled agencies and provide letters to management with our findings as the reviews are completed, as well as provide an annual summary report of our findings.

Report Distribution

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

Martha S. Mavredes
AUDITOR OF PUBLIC ACCOUNTS

JDE/clj

Links to Results Letters
<u>Department of Accounts Payroll Service Bureau</u>
<u>Department of Conservation and Recreation</u>
<u>Department of Forensic Science</u>
<u>Department of General Services</u>
<u>Department of Housing and Community Development</u>
<u>Department of Historic Resources</u>
<u>Department of Labor and Industry</u>
<u>Department of Small Business and Supplier Diversity</u>
<u>GenEdge Alliance</u>
<u>Library of Virginia</u>
<u>Marine Resources Commission</u>
<u>Southern Virginia Higher Education Center</u>
<u>Southwest Virginia Higher Education Center</u>
<u>Virginia Health Workforce Development Authority</u>